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March 15, 2002

VIA ELECTRONIC FILING

Mr. William F. Caton
Acting Secretaryw
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: *Application by Verizon New England Inc., et. al. To Provide In-Region, InterLATA
Services in Vermont, CC Docket No. 02-7*

Dear Mr. Caton:

At the request of the Commission's staff, AT&T submits this *ex parte* letter and the attached Declaration of Catherine E. Pitts to respond to Verizon's February 26, 2002 *ex parte* letter submitting what Verizon claims are the cost studies upon which its Vermont rates were based.¹

As detailed in the attached declaration of Catherine E. Pitts, Verizon has not, in fact, submitted actual cost studies that the Commission and the parties to this proceeding can use to evaluate Verizon's claim that its Vermont rates are appropriately cost-based. Indeed, Verizon has not provided either its switch investment cost model (the "SCIS" model) or the inputs it used in that model. *See id.* ¶ 4. Verizon's submission also fails to explain or, in any way document, the methodology used to convert the output of the SCIS model (estimates of switching investment) into the relevant switching port and usage costs. *See id.* ¶ 5. Without all of this information, it is impossible for Verizon to prove that its switching costs were computed in a manner consistent with TELRIC principles. Moreover, although some of Verizon's TELRIC errors are so obvious that commenters have been able to identify them even without access to full cost models, Verizon's failure to supply a full cost record interferes with the Commission's and the parties' ability to measure the impact of those errors. *See id.* ¶ 6.

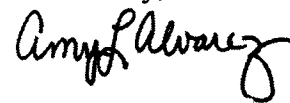
¹ *See Ex Parte* Letter from Richard T. Ellis (Verizon) to William Caton (Acting FCC Secretary), CC Docket No. 02-07 (February 26, 2002) ("February 26 Letter").

The “cost studies” Verizon has supplied here appear to be the same deficient “cost studies” that Verizon supplied to the Vermont Public Service Board (“VPSB”) in 1997 when Verizon’s rates were initially set. As explained by VPSB Hearing Officer, Verizon’s “SCIS model [used to compute switching rates] is proprietary and, therefore, cannot be ‘opened up’ for examination by regulators and competitors” and “the fact that the SCIS model is fundamentally unknowable raises . . . concerns.” *VPSB Feb. 4, 2000 Order* at 23; *see also id.* (“without rigorous testing, one cannot be altogether confident that its outputs, given a reasonable set of inputs, are themselves reasonable”).

Verizon’s failure to supply the underlying cost studies to either the VPSB or this Commission has two important implications. First, the Commission cannot defer to any VPSB finding that the Vermont UNE-rates are TELRIC-compliant because the VPSB did not have access to the requisite information to determine whether the rates properly reflect forward-looking costs. Second, this Commission cannot independently determine whether Verizon’s Vermont UNE-rates are TELRIC-compliant because it too lacks the requisite information to make any such finding. Thus, any finding that Verizon’s Vermont rates comply with TELRIC principles would be patently arbitrary and capricious and not in accordance with the law.

Because Verizon has offered no other valid evidence that its UNE rates are TELRIC-compliant, Verizon has failed to satisfy its burden of *proving* that its rates comply with Checklist Item 2. Thus, Verizon’s application must be denied.

Sincerely,

A handwritten signature in black ink, appearing to read "Amy L. Alvarez". The signature is fluid and cursive, with a large, stylized "A" and "L".

cc: Gary Remondino
Julie Saulnier
Deena Shetler
Julie Veach
Kelly Trainor (DOJ)
Peter Bluhm (VPSB)
Ann Berkowitz (Verizon)

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Application by Verizon New England Inc., Bell)	
Atlantic Communications, Inc. (d/b/a Verizon)	CC Docket No. 02-7
Long Distance), NYNEX Long Distance)	
Company CC Docket No. 02-7 (d/b/a Verizon)	
Enterprise Solutions)Verizon Global Networks)	
Inc., and Verizon Select Services Inc. To Provide)	
In-Region, Inter LATA Services in Vermont)	
)	

SUPPLEMENTAL DECLARATION OF CATHERINE E. PITTS

1. My name is Catherine E. Pitts (formerly Petzinger). I am the same Catherine E. Pitts who filed a declaration with AT&T's February 6, 2002 comments in this proceeding. In that declaration I demonstrated that Verizon's Vermont recurring switching rates are inflated by numerous TELRIC errors including: (1) the switch discounts used by Verizon's cost model appear to be substantially understated; (2) Verizon failed to fully implement the switch investment reductions ordered by the Vermont commission; (3) Verizon failed to assume the use of the most efficient integrated digital loop carrier technology (GR-303) to compute switching costs; (4) Verizon's cost studies substantially understate the forward-looking level of integrated DLC technology; (5) Verizon substantially overstated its Minute of Use ("MOU") estimate by computing MOUs based only on business days rather than on all days; (6) Verizon substantially overstated its engineering, furnishing and installation costs; and (7) Verizon overstated its power factors. See AT&T Comments, Pitts Decl. ¶¶ 6-24. However, as I explained in my initial declaration, my ability to fully assess the impact of

these TELRIC errors and to identify other critical TELRIC errors was impeded by Verizon's failure to submit the cost studies used to compute its Vermont rates. On February 26, 2002, Verizon submitted a computer compact disk that, according to Verizon, contains the cost studies it used to develop Verizon's Vermont rates.

2. The purpose of my supplemental declaration is to demonstrate that Verizon's February 26 submission is not remotely sufficient to assess whether Verizon's rates are TELRIC-compliant; that submission is missing key portions of Verizon's Vermont switching cost studies that are critical to evaluating whether Verizon's switching rates are TELRIC-compliant, and the extent to which particular TELRIC-errors inflate Verizon's Vermont switching costs.

3. To compute its Vermont recurring switching costs, Verizon first estimates its switching investment using a proprietary switch model, Telcordia's Switch Cost Investment System, ("SCIS Model"). The switch investments produced by the SCIS Model are then used as inputs by Verizon's Vermont cost studies to convert those switching investments into switching costs. To properly evaluate whether Verizon's switching costs are based on a reasonable application of TELRIC principles it is necessary to examine (1) the SCIS Model; (2) the Verizon-Vermont specific input data used by the SCIS Model; and (3) electronic versions of the cost studies that convert the SCIS Model switching investment into switching costs. The material submitted by Verizon on February 26 contains none of these items.

4. *No SCIS Model Or Inputs.* The information submitted by Verizon on February 26 does not include Verizon's Vermont SCIS Model or the Vermont-specific inputs used by the SCIS Model to compute switching investment. Without that

information, Verizon's claim that its rates are TELRIC-compliant cannot be fully assessed and certainly cannot be verified. To be sure, Verizon's February 26 filing does contain the final values produced by its SCIS Model, but without the SCIS Model and its inputs, there is no way to determine how those numbers were computed.

5. *No Electronic Cost Studies.* To convert the switch investment computed by the SCIS Model into switching costs, the switch investments are imported into various spreadsheets. These spreadsheets (which are generally referred to as "cost studies") perform calculations on the switch investment values to compute switching costs. Verizon's February 26 submission, however, does not contain these spreadsheets. Rather, Verizon submitted only a summary of the values produced by the spreadsheets, leaving out the underlying calculations.¹ Consequently, it is not possible to determine whether the method used by Verizon to compute its switching investment into switching costs complies with TELRIC principles.

6. Verizon's failure to submit its original electronic cost studies for Vermont also precludes third parties from conducting sensitivity analyses to determine the precise impact of the TELRIC-errors in Verizon's cost study on its switching costs.

7. In sum, Verizon's February 26 submission purporting to contain Verizon's Vermont "cost studies" is missing critical parts of its switching cost studies – *i.e.* the SCIS Model and the inputs used by the SCIS Model – and does not contain the original electronic files that permit third parties fully to examine how switching investments were used to compute switching costs. Without that information, the

¹ Specifically, Verizon appears to have converted the final results of its switching cost studies into text-only files (*i.e.*, Adobe Acrobat file), whereas the original files (probably a Microsoft Excel Spreadsheets) would have shown not just the final values, but also the calculations used to compute those values.

Commission cannot verify Verizon's assertions that its cost studies are TELRIC-compliant.

VERIFICATION PAGE

I declare under penalty of perjury that the foregoing Declaration is true
and correct.

/s/ Catherine E. Pitts
Catherine E. Pitts

Executed on: March 15, 2002